



ANN ARBOR/YPSILANTI
SMARTZONE LDFA

2008 ANNUAL REPORT

For the period July 1, 2007 – June 30, 2008



2008 Board of Directors

(A) Mickey Katz-Pek, Chair	Term Expires: June 30, 2008
(A) Mike Korybalski, Vice Chair	Term Expires: June 30, 2011
(A) Robin Risser, Treasurer	Term Expires: June 30, 2009
(A) Michael Reid	Term Expires: June 30, 2009
(Y) Darryl Daniels	Term Expires: June 30, 2011
(A) Stephen Rapundalo	Term Expires: June 30, 2011
(Y) Richard King	Term Expires: June 30, 2009
(A) Tom Kinnear	Term Expires: June 30, 2008
(Y) Jonnie Bryant	Term Expires: June 30, 2008

Ex-Officio Board Members

Tom Crawford, Secretary	Affiliation: City of Ann Arbor
Roselyn Zator	Affiliation: MEDC

(A) Denotes City of Ann Arbor Appointee (Y) denotes City of Ypsilanti Appointee



Introduction

In 2001, the Michigan Economic Development Corporation (MEDC) created eleven separate SmartZones throughout the state, including Ann Arbor/Ypsilanti, for the purpose of highlighting Michigan's unique technology business opportunities and promoting job creation. The foundational documents for the Ann Arbor/Ypsilanti SmartZone included 1.) An initial SmartZone application to the MEDC, 2.) A Tax Increment Financing plan, and 3.) A Municipal Cooperation Agreement between the cities of Ann Arbor and Ypsilanti, and maintain a primary focus on developing and sustaining local "Business Accelerators" and "Business Incubators" as the vehicles through which services to emerging technology driven businesses are delivered.

The governing body, known as the Ann Arbor/Ypsilanti SmartZone Local Development Finance Authority (LDFA) consists of a nine-member board of directors of which six members are appointed by the Ann Arbor City Council and the Ypsilanti City Council appoints three members. The LDFA operates under a set of bylaws that were initially approved by the Ann Arbor and Ypsilanti City Councils. Proposed changes or amendments to the bylaws are adopted by the LDFA's Board of Directors and submitted to the Ann Arbor City and Ypsilanti City Councils for approval.

The LDFA provides local financing for the Ann Arbor/Ypsilanti SmartZone through a tax capture mechanism within a specific district. The geographic boundaries for the Ann Arbor/Ypsilanti SmartZone LDFA was defined as the combined DDAs of the two respective cities, and under the tax capture formula, tax levies eligible for capture include only those for which a prior claim had not been established by either DDA. The SmartZone captures up to one-half of the school operating and state education taxes within the Ann Arbor portion of the district, and is based on the increase in taxable value due to new development and appreciation above the base year of 2002. Presently, TIF revenue is generated only within the geographic boundaries of the Ann Arbor DDA.

Summary of Fiscal Year Operations

Through contracts with qualified service providers, the Ann Arbor/Ypsilanti SmartZone LDFA funded Business Accelerator activities to work with emerging technology based businesses, identifying those that have the greatest potential for commercialization, rapid growth, and ultimately the ability to promote job development within the SmartZone district. The Business Accelerator provides entrepreneurs and their emerging technology businesses with educational and networking services, assistance in market definition, business plan development, and exploring financing alternatives.

During the July 1, 2007 – June 30, 2008 period, the Ann Arbor/Ypsilanti SmartZone LDFA Board met twelve times. Among the issues deliberated by the Board of Directors were development of the annual budget, scope of work and performance metrics for contracted services, strategic and long range planning, and amendments to the LDFA By-laws.



The Ann Arbor/Ypsilanti SmartZone LDFA has no employees and conducted all operations through negotiated service contracts. To this end, The Ann Arbor/Ypsilanti SmartZone LDFA entered into Agreements with Ann Arbor SPARK for the July 1, 2007 – June 30, 2008 fiscal year with five measurable goals. Table 1 summarizes the actual results delivered versus the goals and objectives established in the scope of work:

Table 1

Service	Goals & Targets	FY 2008 Results
<p>Entrepreneurs Boot Camp</p> <p>Contracted with Ann Arbor SPARK to develop curriculum and organize a professional panel of qualified experts sufficient to conduct two intensive multi-day workshops for early stage entrepreneurs. LDFA to provide \$10,000 base support per session and up to \$10,000 per session to match participant tuition payments.</p>	<p>Conduct 2 Boot Camp sessions with minimum of 8 qualified companies per session.</p>	<p>November 1 & 2, 2007 15 companies participated</p> <p>April 24 & 25, 2008 15 companies participated</p> <p>Cost of Service provided: \$40,000</p>
<p>Cantillon Education Series</p> <p>Contracted with Ann Arbor SPARK to Develop three modules of a planned ten module web-based, interactive, high-tech entrepreneurship curriculum. Each module will integrate Michigan-specific training and case studies and utilize an open source model. The complete curriculum shall take an entrepreneur through critical elements of defining and refining his/her business vision, testing its feasibility, incorporating micro deliverables for the entrepreneur to complete, and be reviewed and critiqued by an assigned mentor.</p>	<p>Create 4 new modules:</p> <p>Unit 1: Technology Commercialization</p> <p>Unit 5: Management Team</p> <p>Unit 7: Growing Sales: Systematic Selling</p> <p>Unit 10: Entrepreneurial Firm Lifecycle</p>	<p>4 of 5 planned new modules were created and launched; one was delayed due to speaker scheduling and is currently 85% complete. Usage report on the first 2 modules:</p> <ul style="list-style-type: none"> • In total, there have been almost 1,000 registrations, with about one-third of those being completed. • 68 mentors have received training; 12 of those are fully trained in the use of the tool <p>Cost of Service provided: \$70,875</p>
<p>Business Networking Events</p> <p>Contracted with Ann Arbor SPARK to host or sponsor events for entrepreneurs to learn about building a technology business, recruiting and retaining people, raising capital, writing a business plan, protecting IP, and finding partners/customers.</p>	<p>50 events with majority of attendees defined as 'Entrepreneurs'</p>	<p>Sponsorship reimbursement for 50 events was provided. Many events were in held collaboration with partnering organizations like GLEQ, SBTDC and U of M.</p> <p>SPARK reports 2,675 people attended these events with 1,512 identifying themselves as 'entrepreneurs' (57%).</p> <p>Cost of Service provided: \$25,000</p>



Business Accelerator Services		
<p>Contracted with Ann Arbor SPARK</p> <p>Phase I defined as: The initial contact and screening phase to understand and assess the business and technology proposition and determine if advancement to a Phase II engagement is warranted. This includes (a) review/screen for general programmatic fit, (b) solicit reviews from advisors/consultants for high level reaction, (c) referral to Phase II or other programs or outside resources. Phase I normally averages two hours per company.</p> <p>Phase II defined as: Due diligence evaluation of prospective client firms to determine if the business is capable and/or ready for substantial investment for business plan and consulting assistance in Phase III. This includes (a) review for qualification of opportunity attractiveness, (b) opportunity and issue assessment, (c) scope of engagement for Phase III, (d) feedback to client from assessment, and (e) identification of criteria required for reconsideration. Phase II normally averages 10 hours per company.</p> <p>Phase III defined as: Substantial investment for business development to advance client firms beyond the startup phase to the seed stage. This includes but is not limited to: (a) development or refinement of a plan, schedule, and budget for achievement of high value milestone(s), (b) addressing a strategic issue, (c) implementation of a milestone plan, (d) advancing the client on 1-3 strategic fronts, and (e) development of an extended plan at the end of the engagement. Phase III normally averages 40 hours per company.</p>	<p>120 new engagements in fiscal year</p> <p>72 new engagements in fiscal year</p> <p>33 new engagements in fiscal year</p>	<p>164 companies/business ideas received Phase I services in the fiscal year.</p> <p>Cost of Service Provided: \$30,188</p> <p>95 companies received Phase II services in the fiscal year. Some of the companies served were existing BA clients from prior years or were referred from Phase I engagements.</p> <p>Cost of Service Provided: \$37,994</p> <p>97 companies received Phase III services in the fiscal year. Some of the companies served were existing BA clients from prior years or were referred from Phase II engagements.</p> <p>Cost of Service Provided: \$342,498</p>

Of the 79 Business Accelerator companies Ann Arbor SPARK identified as providing new opportunities for success this fiscal year, the following metrics are noteworthy^{\$}.

- 266 Full Time Equivalent jobs exist today
- At least 35 new jobs were added this year
- \$4,991,500 of grants were awarded to 9 companies
- \$28,906,500 in private equity was raised by 14 companies (the largest recipient accounted for \$18 million of this amount)
- University of Michigan technology is driving 6 companies

^{\$} Source: Ann Arbor SPARK



Statement of Operations

INCOME STATEMENT

	<u>FY 2008</u> <u>Actual</u> (\$)	<u>FY 2008</u> <u>Adopted</u> <u>Budget</u>	<u>FY 2008</u> <u>Variance</u> <u>(Over)/Under</u>	<u>FY 2009</u> <u>Adopted</u> <u>Budget</u> (\$)
Revenues:				
Tax Revenue	\$ 728,730	\$ 770,000	\$ (41,270)	\$ 950,492
Use of Prior Year Fund Balance	121,231	297,000	\$ (175,769)	- **
Investment Income	22,875	-	22,875	-
Total Revenues	<u>\$ 872,836</u>	<u>\$ 1,067,000</u>	<u>\$ (194,164)</u>	<u>\$ 950,492</u>
Expenditures:				
Contracted Services	\$ 535,679	\$ 410,000	\$ (125,679)	\$ 681,900
Other Services	\$ 331,352	416,080	84,728 *	225,220
Undesignated Contingency	-	221,920	221,920	-
Administrative Expense	5,805	19,000	13,195	27,500
Total Expenditures	<u>\$ 872,836</u>	<u>\$ 1,067,000</u>	<u>\$ 194,164</u>	<u>\$ 934,620</u>
Net Increase/(Decrease)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,872</u>

Memo:

° *The positive divergence in "Other Services" resulted from the Business Incubator budgeted amount of \$250,580 and actual expenditure of \$190,373 due to the delayed opening and lower than projected expense.

° **Actual Fund Balance at Fiscal Year End **\$178,240**.



Statement of Operations (continued) Detail of Expenditures

Smart Zone LDFA INCOME STATEMENT AND STATEMENT OF CHANGES IN FUND BALANCE

	FY 2008	FY 2009
	Actual	Projected Expenditures
	(\$)	(\$)
Expenditures:		
Business Accelerator	410,680	578,000
Business Incubator	190,373	120,420
Boot Camp	40,000	60,700
Marketing	70,104	50,400
Collaboration Networking	60,000	-
Networking Events	25,000	43,200
Cantillon Web Site Development	70,875	54,400
Legal & Administrative Support	5,804	27,500
Total Expenditures	\$ 872,836	\$ 934,620